

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

November 14, 2005

The Investment Committee met on Monday, November 14, 2005 in the Lincoln Plaza North Building, 400 Q Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 1:00 p.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Ron Alvarado
Philip Angelides, represented by Ted Eliopoulos
Marjorie Berte
Robert F. Carlson
Rob Feckner
Priya Mathur
Michael Navarro, represented by Debbie Endsley
Tony Oliveira
Mike Quevedo, Jr.
Kurato Shimada
Steve Westly, represented by Toni Symonds and Joy Higa

The meeting recessed from 1:05 to 1:15 p.m.

AGENDA ITEM 2 - APPROVAL OF AGENDA

There were no changes to the open session agenda order.

AGENDA ITEM 3 – APPROVAL OF OCTOBER 2005 MEETING MINUTES

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** that the October 17, 2005 Open Session minutes be approved as presented.

AGENDA ITEM 4a - REAL ESTATE, Real Estate Annual Plan

Mike McCook, Senior Investment Officer, and Al Fernandez, Senior Portfolio Manager, presented the item. Nori Gerardo Lietz, Pension Consulting Alliance, was available to respond to questions from the Committee.

The presentation included a performance review of the global real estate portfolio, past year highlights, accomplishments, and 2005-06 challenges and initiatives. The overall real estate return of 51.4% for the fiscal year ending June 30, 2005 reflects the highest return of record for a one-year period.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve the 2005-2006 Real Estate Annual Plan.

AGENDA ITEM 5a - ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, AIM Annual Plan

Leon Shahinian, Senior Investment Officer, and Joncarlo Mark, Senior Portfolio Manager, presented the item. The presentation included a review of performance, the recent year's accomplishments, and key priorities for the upcoming year.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve the 2005-2006 AIM Annual Plan.

AGENDA ITEM 6a – GLOBAL EQUITY, International Fund Service (IFS) Contract Renewal

Christy Wood, Senior Investment Officer, and Kurt Silberstein, Portfolio Manager, presented the item. Gina Greer, Staff Counsel, stated that the Legal Office had conferred with Investment staff regarding the requirements for a best business practices exemption.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve (1) an exemption from competitive bidding based on Best Business Practices for the contract to provide the portfolio management platform for the Risk Managed Absolute Return Strategies Program, (2) an annual review contract to International Fund Services for these services, and (3) that it be brought back to the Committee for review no less than once every three years.

AGENDA ITEM 6b – GLOBAL EQUITY, Selection of Environmental Public Equity Managers for Spring-Fed Pool

Christy Wood, Senior Investment Officer, Winston Hickox, Special Consultant, and Mary Cottrill, Senior Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to approve:

 The following group of managers for inclusion in the Spring-Fed Pool of managers for environmental equity investment management services, subject to successful negotiation of fees and terms.

AXA Rosenberg

New Amsterdam Partners

Piper Jaffray & Co. – INTECH

State Street Global Advisors

U.S. Equity
U.S. Equity
U.S. Equity

Brandywine International Equity
State Street Global Advisors International Equity

2. The use of annual review contracts for the Spring-Fed Pool for environmental equity management services.

AGENDA ITEM 6c - GLOBAL EQUITY, New Enhanced Indexing Initiative

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

This was information item to explore and seek input from the Investment Committee on the concept of including, as part of CalPERS' external public equity program, U.S. and international (developed markets) managers of enhanced indexing products that include a relaxation of the long-only constraint. This is a new strategy for CalPERS that would complement the existing lineup of traditional active and enhanced equity managers.

The Committee expressed interest in the strategy and requested that additional information be provided at a future meeting.

AGENDA ITEM 6d – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group Update

There were no items to report.

AGENDA ITEM 6e – GLOBAL EQUITY, PacifiCare and United Health Merger

Christy Wood, Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item.

There was a discussion regarding:

- PacifiCare's proxy statement and merger timeline as it related to the executive compensation agreements.
- How the Committee should convey its concern about poor corporate governance practices and excessive executive compensation.

On **MOTION** by Mr. Eliopoulos, **SECONDED** and **CARRIED** to approve opposing the merger unless the executive compensation packages triggered by the merger are brought back for a separate vote by the shareowners for approval.

The Chair directed Legal staff to seek advice from outside counsel and the California Attorney General with respect to the legality of PacifiCare's actions related to the executive compensation packages.

AGENDA ITEM 7 – GLOBAL FIXED INCOME, International Fixed Income Managers Annual Review

Curtis Ishii, Senior Investment Officer, Eric Busay, Portfolio Manager, Investment Officers Jonathon O'Donnell and Omid Rezania presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to renew the contracts for all CalPERS' external international fixed income managers for a period of one year. The five managers are:

Baring Asset Management
Julius Baer Investments Limited
Bridgewater Associates
Rogge Global Partners
Western Asset Management

AGENDA ITEM 8a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Mark Anson, Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of September 30, 2005, was approximately \$195.5 billion and the total book value was approximately \$151.0 billion.

AGENDA ITEM 8b - CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Amendment to Primary Pension Consultant Contract

Staff were available to respond to questions from the Committee regarding this item.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to authorize the augmentation of the Primary Consultant Contract No. 2005-3632 (Wilshire Associates) up to a maximum of 35% to allow subcontracting with best in class firms to assist with permissible equity country research.

AGENDA ITEM 8c - CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Global Equity Internally Executed Asset Transition

Mark Anson, Chief Investment Officer, reported that as a result of acquiring the ability to process international equity transactions in-house we were able to save \$2 million on the latest transition.

AGENDA ITEM 9 – DRAFT DECEMBER 2005 AGENDA

The Committee accepted the proposed December 12, 2005 agenda and the Chair directed that a presentation regarding gasoline production be scheduled for 1:00 p.m.

AGENDA ITEM 10 – PUBLIC COMMENT

There were no comments from the public.

The meeting was adjourned at 3:30 p.m.

The next meeting of the Committee is scheduled for December 12, 2005 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer